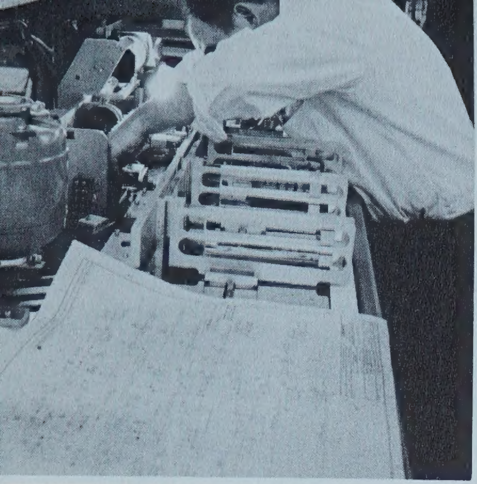
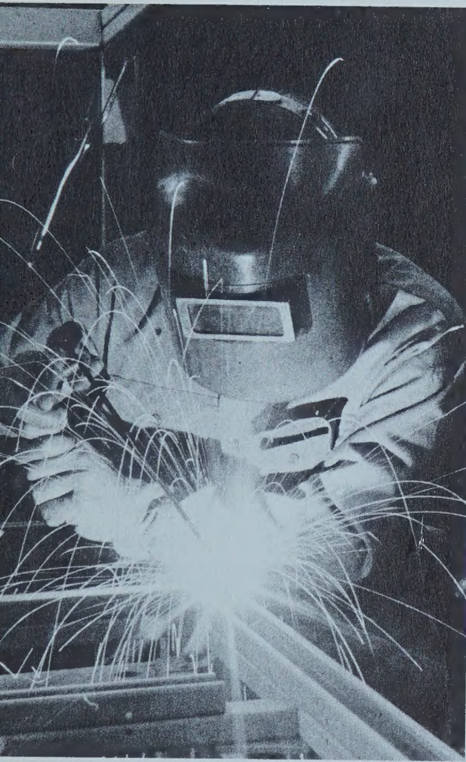
FARRINGTON

ANNUAL REPORT

1966

Activity at Farrington is geare for expanding demand for it products. These typical scenes a the Springfield, Va., plant sho **(reading clockwise from lowe left corner)** engineers and tech nicians in the checkout room pre paring Optical Readers for ship ment; a new welding departmer installed in 1966 which increase production of Readers; a highl skilled technician at work on th intricate interior of a Farringto Document Reader; production fa cilities turning out money amour imprinters for Texaco; hand wi ing of a complex Reader; the nev infra-red paint baking oven ir stalled in 1966 to meet increase production schedules.

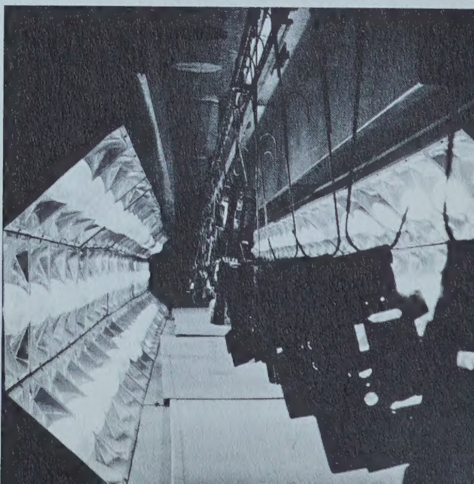




FARRINGTON

ANNUAL REPORT

1966



new file

Alexander D. G. Reid

Brawley Cathers Limited
Suite 1501
11 King Street West
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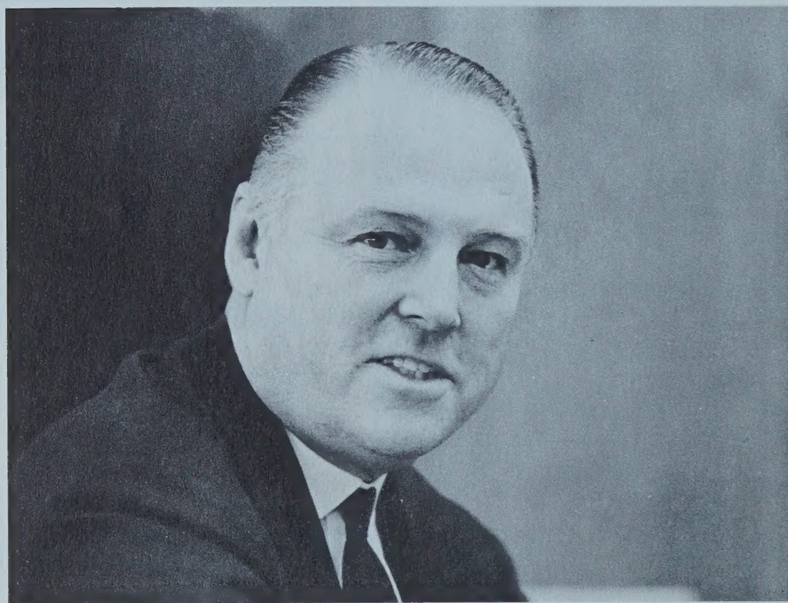
363-5821



TO OUR SHAREHOLDERS

Last October we reported to you certain financial developments that had put your company in a position to move forward. We are moving forward, and at a faster rate than was contemplated six months ago.

Revenues for 1966 were the greatest in the history of the Company. They amounted to $17,355,000 compared with $13,637,000 in 1965, an increase of 27.3%. The loss for the year was $415,000 compared with $752,000 last year.

The second half of the year was satisfactory, but the gain was insufficient to offset the loss of $1,023,000 reported in the first half. The first quarter of 1967 has begun well and we expect the year to be profitable.

Profit margins in 1966 were hurt by limited working capital which also severely curtailed production of Optical Character Readers with their inherent large requirement for working capital.

Imprinter production just about doubled last year. This increased receivables so rapidly we were required to divert cash resources to this business to take advantage of the vast increase in demand and maintain our competitive position in the industry. The future for the imprinter business is bright and in 1966 we enhanced our position in it.

As an indication of the improved position of the company, we were able in January 1967 to negotiate a loan for additional working capital to sustain our growing volume of sales. This infusion of working capital made it possible to reestablish our full Reader production lines in the first quarter of the current year.

The first quarter will reflect more Optical Character Reader deliveries than any quarter in the past. By any criteria, unit or dollar volume, the present backlog is the largest in our history and our financial planning must now anticipate a volume of Readers not previously expected until 1969/1970.

Last year, despite tight money and a loss of $415,000, we spent over a million dollars on Research and Development. Over the past ten years your company has invested over $8,000,000 in Research and Development to produce an ultimate rather than an immediate return. Of this investment $1,467,000 is presently capitalized and being amortized. The balance has been charged to operating expense. We have 104 issued patents, domestic and foreign, and 75 patents pending. We are in the final phases of a three-year R&D program announced in 1964. By the end of last year we had spent over $3,000,000 on this program.

As a result we have successfully launched (1) the fastest Optical Reader self-punch machine on the market today, (2) a journal tape Reader with a reading capacity of 2,000 characters a second, (3) a completely integrated Reader/computer system combining Farrington's reading skills with the increased flexibility of the small computer and (4) a new high speed feed for the Document Reader that has made this Reader the largest single segment of our backlog. The material evidence of the success of our R&D program is important and will bring substantially increased revenues this year to Farrington Electronics, Inc. We are confident of technical leadership in 1967 and beyond as much of the money spent is directed towards fundamentals leading to a broadening of the economic base for Optical Character Readers.

Our vast experience with customers over the past twelve years has shown that their judgments of the relative merits of systems are based on systems throughput cost and not the particular method of accomplishing the result. The most successful Optical Character Reader will always be a combination of mechanical, electric and electronic engineering skills. Combining these in an optimum relationship to assure the lowest throughput cost is most likely to be successfully achieved if the doer has had years of practical experience. No company has had as extensive experience as Farrington.

There is now broad acceptance of the imprinter as a most reliable and inexpensive means of creating information for direct input to electronic data processing systems and while the expansile demand for Optical Character Readers has often been discussed in the past, the expansion is now upon us and it is wide-spreading.

Bank credit card programs, which are an important market for both imprinters and Readers, have multiplied from less than 100 at the beginning of 1966 to more than 1,000. According to Dale E. Riestad, Director of Automation of the American Bankers Association, "bank credit card plans, although in their infancy today, could take on giant proportions in the very near future."

We have technical competence, the demand for our products is expanding rapidly and your management believes the development of your company's financial and corporate structure can keep pace.

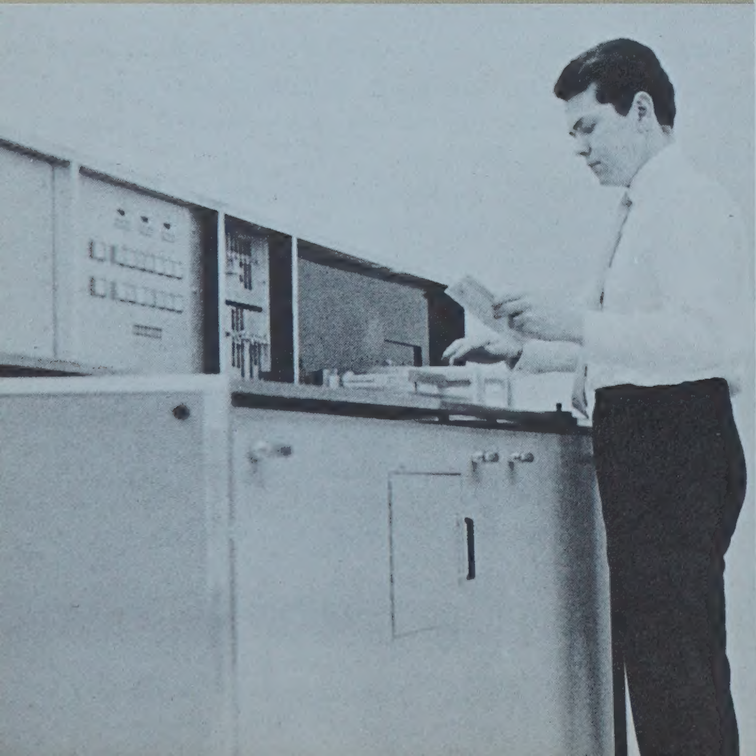
The Board of Directors extends its thanks and appreciation to Farrington's management and employees for the determination, devotion and skill they have exercised in behalf of the company. Our progress is indicative of their efforts.

For the Board of Directors

NORVILLE E. WHITE
Chairman of the Board and President

March 30, 1967

(above) A McCall Corporation employee in Dayton, Ohio, feeds bulk subscription data into a Farrington Page Reader. A Farrington Document Reader is used at the same location. (right) Thousands of Farrington money amount imprinters like this one at a service station in Washington, D.C., have speeded and improved the accuracy of credit purchases. Invoices printed on this machine may be fed directly into an OCR. (below) TV Guide depends on this Farrington Document Reader to process masses of subscription renewal notices at its Radnor, Pa., facility. The Company has ordered a Farrington Page Reader for feeding bulk data into its computer system.



OPERATIONS REVIEW

FARRINGTON OPTICAL READERS

Farrington invented the Optical Character Reader in 1955 and created a system which is now beginning to have a broad impact on the data processing industry.

During 1966 Farrington received orders for Optical Readers from banks, publishing companies, railroads, oil companies, utilities, insurance companies, government agencies, computer manufacturers, service bureaus, manufacturing companies and special service facilities. Many of these have become dependent upon Farrington Optical Readers for a variety of functions.

For example...

Standard Oil of California recently installed the newest Farrington Optical Reader for high speed reading and punching of gasoline credit sales invoices. This company has used Farrington Readers on a continuous basis for more than 10 years.

The McCall Corporation uses a Farrington Document Reader for subscription renewals and a Farrington Page Reader for high volume input to subscription name and address files.

The First National Bank of Chicago's FirstCard charge account system depends on a Farrington Reader to record transactions from more than 30,000 retail outlets for a computer billing system.

The State of Indiana has eliminated key punching in its Motor Vehicle Bureau by using typists and a new Farrington Optical Reader to feed drivers license and vehicle registration information into its data systems.

The Farmers Union Central Exchange, Inc., a Co-Op headquartered in South St. Paul, Minn., uses embossed credit cards, money amount imprinters and a Farrington Document Reader to feed gasoline billing information to a computer, eliminating all hand processing from the point of sale to the mailing of invoices.

St. Paul Fire & Marine Insurance Co. uses a Farrington Document Reader and a Farrington Page Reader for reading premium billing notices into its data processing system and to eliminate key punching in the handling of bulk data of policy holders.

TV Guide depends upon a Farrington Document Reader for handling magazine subscription renewal notices and has ordered a Farrington Page Reader for feeding bulk typed subscription data into its computer system.

South African Mutual Life Assurance Society employs a Farrington Page Reader at Capetown for feeding policyholder information into its computer system.

Foreign demand for Optical Readers is increasing and Farrington will continue to service this important and growing

segment of the market. Orders for Farrington Optical Readers were received in 1966 from Asia, Africa and Europe.

Farrington's product line of Optical Readers meets the current needs of any business, industry or governmental agency. They are competitively priced and superior in performance.

The efficiency and the financial advantages of Farrington Optical Readers are illustrated by analyzing the capabilities of a Farrington 3030 Reader/Computer System with typists providing information for the Reader. A Farrington Reader, operating only eight hours a day, will process the total eight-hour production of 100 typists using electric typewriters. The cost of 100 typists' salaries, rental of 100 electric typewriters and the leasing of a Farrington 3030 Page Reader would amount to approximately $39,500 per month.

By contrast it would take 210 keypunch operators to produce the same output as 100 typists. The salaries of 210 keypunch operators plus rental of 210 keypunch machines in one month would amount to about $96,600—$57,100 a month more than the Farrington Reader/typist system. In addition, greater accuracy can be achieved with the Farrington system.

The recent swift growth of credit and identification card uses has accelerated the need for Farrington Readers. This accelerated demand is continuing.

Farrington credit card "systems" are also generating interest on a wide scale. Such systems consist of Farrington-made credit cards, Farrington embossing equipment, Farrington money-amount imprinters and Farrington Readers. The money-amount imprinters record complete information on a purchase, including the credit number, the name of the purchaser and the exact amount of the purchase. Farrington Readers "read" and feed into computers the information on the sales slip. The complete operation from transaction to the computer billing operation is accomplished without individual attention.

THE FUTURE OCR MARKET

The market for Farrington Optical Character Readers is reaching the stage of exceptional growth. The period of education has developed into one of application and a multiplying demand is evident in the future.

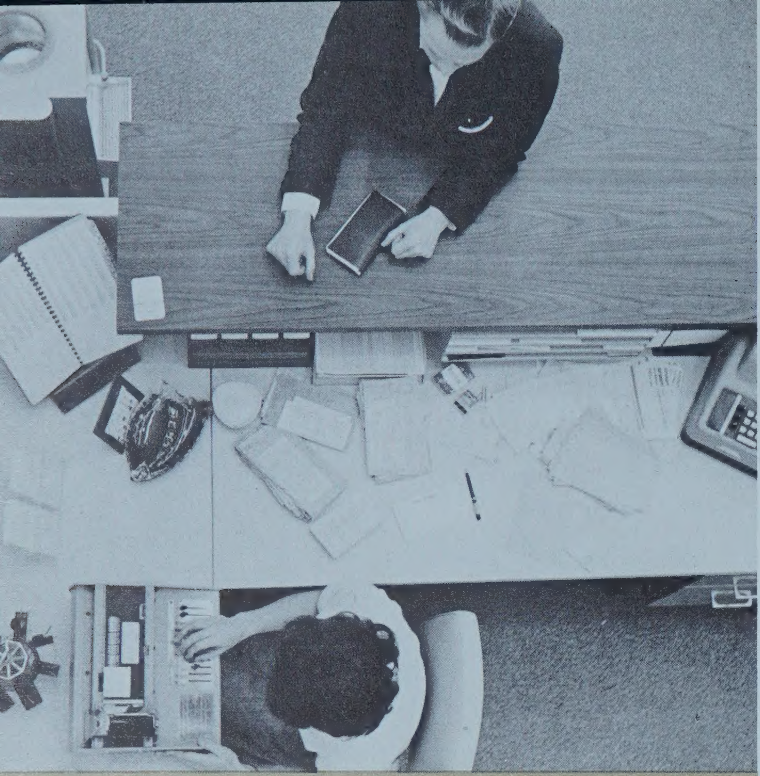
Any organization which processes numbers of documents, bills or invoices represents a potential sale for a Reader. Some of Farrington's future business will represent second and third sales to the same customer.

Every computer used for billing or information processing creates a potential for Farrington OCR equipment which is compatible with all computers. According to the New York Times there were 40,000 computers in use in 1966. The figure may reach 100,000 by 1970. By contrast there are fewer than 500 readers of all types in use today—indicating the potential market is hardly touched.

Despite expanding competition, Farrington has been able to position itself to achieve its fair share of the expanding market for Optical Readers. Farrington Readers have these advantages:

- They are superior in accuracy.
- They are priced equal-to or below competitive brands.
- They are compatible with all computers.
- They reflect expert engineering and scientific know-how.
- As a product line they have sufficient versatility to meet the needs of the market.

(above) Key punching is eliminated at the State of Indiana Motor Vehicle Bureau in Indianapolis. Typed information is fed into a Farrington Optical Character Reader to process drivers license and vehicle registration information for computer storage and processing. **(left)** Standard Oil of California processes gasoline credit sales invoices with this new, high speed Farrington self-punch Reader. **(below)** St. Paul Fire and Marine Insurance Company handles bulk policy information data with the Farrington Page Reader at right. The Farrington Document Reader at left is used for premium billing notices.



(above) State Loan and Finance Management Corporation of Silver Spring, Md., records branch receipts and payments in its offices with a Farrington data recorder, a machine which produces 20 variable input columns. The information is read by Readers, providing a fully automated system. (right) The First National Bank of Chicago uses Farrington imprinters to provide purchase information from more than 30,000 retail outlets with its FirstCard credit system. The information is processed by a Farrington Reader for input to a computer. (below) Typists such as these at F.S.C. Corp., Farrington's service bureau in Philadelphia, use electric typewriters to convert masses of information onto white paper to be processed by an Optical Reader and fed to a computer.

IDENTIFICATION CARDS, EMBOSSERS AND IMPRINTERS

Plastic identification and credit cards are finding new uses almost daily and Farrington is equipped to continue to grow with this expanding market.

During the last year the company supplied credit or identification cards, embossers and imprinters for a variety of new uses.

Delivery of the first of 2,000,000 embossed credit cards began during 1966 to the Midwest Bank Card system. Many of the 50,000-plus retail businesses who registered with the system began installing Farrington imprinters at the same time, and orders continue to be received for Farrington products for this system.

The big three automobile companies have become users of Farrington equipment. The Ford Motor Company uses Farrington imprinters for warranty service. Chrysler Corporation dealers use Farrington imprinters and allied supplies for automobile warranties. The Chevrolet Division of General Motors uses Farrington-made imprinters in warranty service operations.

In addition Ford is using Farrington embossers for employee identification cards at its manufacturing facilities.

The U.S. Air Force uses identification cards for each of its airplanes to record with Farrington imprinters basic information when a plane is refueled, repaired or serviced.

An oil company reports more than $900,000,000 worth of credit purchases of gasoline, supplies and other merchandise was recorded and processed by its credit card system.

Hospitals are using embossed plastic cards and imprinters for in-patients and out-patients at an increasing rate.

Farrington has developed a new photo identification card on which there is a photograph, written information and embossed information for processing with Farrington imprinters. The card is a unique step forward in identification practices and opens broad new sales potential.

Other unique and interesting identification card applications are being developed.

There is a growing market for money amount imprinters on which complete credit information as well as the amount of a purchase can be recorded, assuring maximum accuracy and allowing the transaction to be handled automatically with Farrington Optical Readers in connection with a computer.

Farrington has completed one of the largest known orders for money amount imprinters. The success of this machine has given rise to subsequent orders from other companies.

We expect this interest in plastic identification and credit cards, embossing equipment and imprinters to continue to expand in 1967 and in the foreseeable future.

F. S. C.

The Farrington Service Corporation with headquarters in Philadelphia has become an important source of revenue and has contributed to recent profits. The outlook for this portion of Farrington's business is especially bright.

This service organization is equipped to convert any information—handwritten or typewritten—to computer tapes or

punchcards with extreme accuracy, at high speed, and at competitive prices.

The system employs electric typewriters and typists and a Farrington Reader operated in conjunction with a computer. Information is typed on white paper which is then read by the Page Reader and processed automatically into the computer.

In the three years of its operation F.S.C. has converted more than 75,000,000 records onto computer tape or punchcards.

Among recent major undertakings of this service center was one for the Equitable Life Assurance Society. Some 5,500,000 record history cards of policy holders were converted onto computer tape with a guaranteed accuracy of 99.7 per cent on a per-record basis.

The center is now processing pertinent data for Yellow Page telephone directories for Bell Telephone of Pennsylvania.

Other major firms using the service center facilities include record clubs, department stores, banks and oil companies.

The operation has been expanded to include an input preparation center in Dayton, Ohio. Additional expansions are anticipated into other major cities.

FOREIGN OPERATIONS

Farrington has great strength and great potential in its foreign operations.

Adrema, Ltd., in London, is vigorously pursuing very profitable foreign business throughout the world.

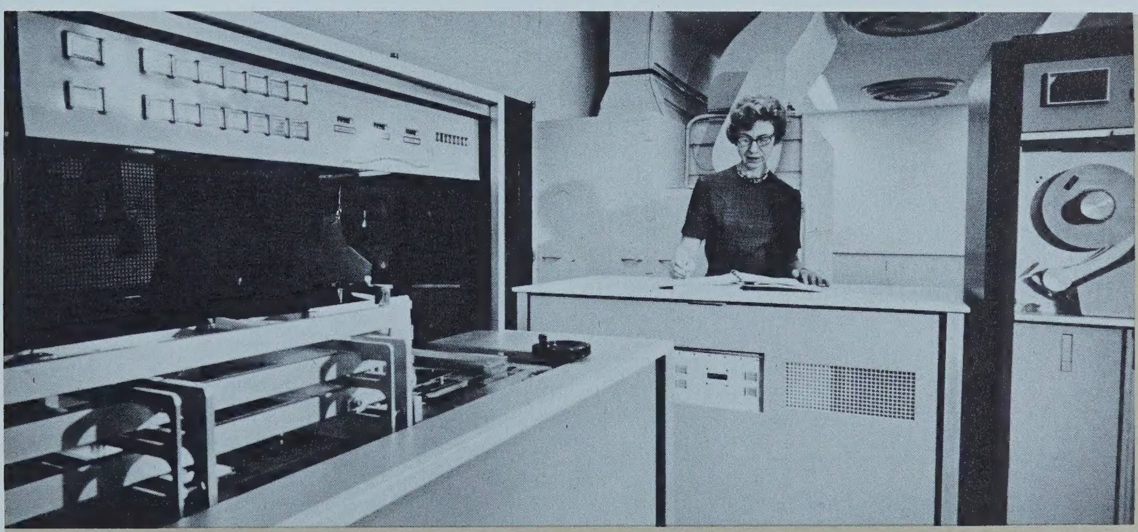
Bradma of India, Ltd., in Bombay, provides an important entree to business in India and Southeast Asia.

Farrington has representatives in some 80 countries of the world in addition to its manufacturing facilities in England, India and the United States.

Adrema this year established a production line for manufacturing imprinters for the first time. The business generated by this facility has improved Farrington's position in Europe.

It is expected that the Adrema sales force will develop orders for a minimum of ten Optical Character Readers in the United Kingdom this year.

Foreign representatives operating out of the United States are finding a ready market for Optical Readers in Japan and new market areas are developing around the world.



The Farmers Union Central Exchange, Inc., a Co-Op headquartered in South St. Paul, Minn., has eliminated hand operations in its service station credit system. **(below)** Farrington money amount imprinters at the point of purchase record information which is fed into a Farrington Document Reader **(left)** which processes the invoices for computer billing.

FARRINGTON'S CREDIT SYSTEM

Farrington has a unique position in the rapidly expanding credit card field, which is now attracting many large banks throughout the United States.

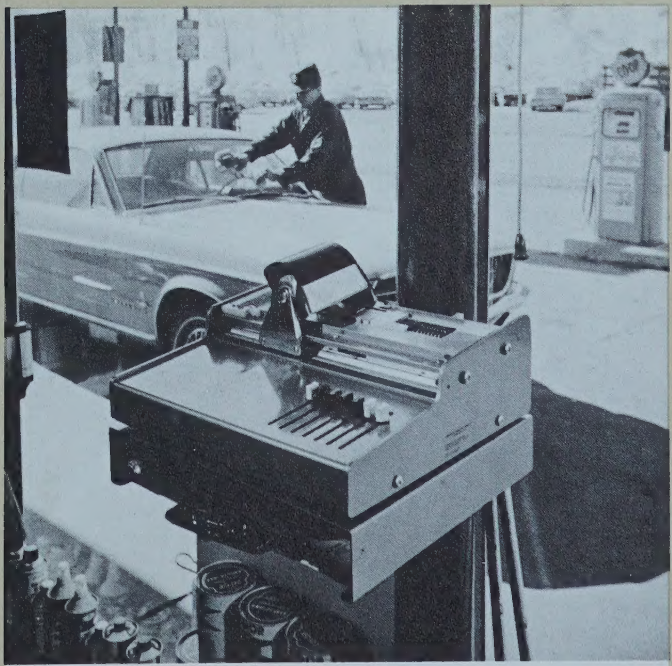
Farrington makes and sells embossing equipment which is used to put the credit card holder's name, address and credit number on plastic cards. And completed cards can be provided for companies which do not choose to emboss cards themselves.

Farrington is one of the world's largest manufacturers of imprinters which record information from a credit card onto an invoice.

Farrington Optical Character Readers "read" and feed into computer systems the information from an invoice stamped with a Farrington imprinter.

Such systems which use money amount imprinters eliminate all manual operations in transmitting purchase information at the point of sale to the billing provided by computer and sent to the customer.

Only Farrington manufactures all three of the products which make up such a system—embossing equipment, imprinters and Optical Character Readers.



CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1966 AND 1965

ASSETS

	1966	1965
Current assets:		
Cash	$ 45,966	$ 147,031
Rental proceeds—pledged in 1965 (Note 1)	—	498,045
Accounts receivable (including $255,659 pledged in 1965), less allowance for doubtful accounts: 1966—$42,531, 1965—$38,842 (Notes 1 and 3)	2,898,023	2,563,688
Payments in respect of disputed taxation liabilities	84,268	108,606
Inventories, at lower of cost (principally average cost) or market (Note 3):		
Finished goods	1,102,539	975,944
Work in process and manufactured parts	2,541,833	2,394,107
Raw materials and supplies	949,316	820,404
Prepaid expenses	114,252	109,815
Total current assets	7,736,197	7,617,640
Loan proceeds—pledged in 1965 (Note 1)	—	798,420
Property and equipment, at cost:		
Land	34,780	34,780
Buildings	228,834	228,834
Machinery and equipment	3,397,864	3,310,838
Equipment leased to customers (Note 1)	139,750	6,958,315
Leasehold improvements	221,986	218,407
	4,023,214	10,751,174
Accumulated depreciation and amortization	2,381,178	5,940,165
	1,642,036	4,811,009
Research and development, less amortization: 1966—$242,705, 1965—$78,512 (Note 2)	1,466,541	1,135,240
Debt discount and expense, being amortized	57,204	206,030
Other	176,236	250,886
	$11,078,214	$14,819,225

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1966	1965
Current liabliities:		
Notes payable to banks by foreign subsidiaries (Note 3)	$ 864,643	$ 971,065
Notes payable to others	130,450	294,425
Accounts payable	1,878,622	2,015,816
Accrued expenses	1,032,593	1,084,234
Foreign income tax	251,302	106,534
Maintenance service—current portion	175,504	264,224
Current maturities of long-term debt	16,448	18,805
Total current liabilities	4,349,562	4,755,103
Maintenance service—deferred portion	—	97,410
Long-term debt, less current maturities (Note 3):		
Notes payable due one year and a day after demand	895,000	725,000
5¾% Guaranteed Collateral Notes (Note 1)	—	3,000,000
5½% subordinated convertible debentures, due in 1970	3,770,000	3,770,000
Other	2,778	11,919
	4,667,778	7,506,919
Minority interests in foreign subsidiaries (Note 1):		
6½% cumulative preference shares	336,000	336,000
Capital stock and surplus	245,137	269,892
	581,137	605,892
Contingent liabilities (Note 6)		
Deferred profit on sale of equipment under one year leases (Note 1)	—	450,748
Stockholders' equity (Notes 3, 4, 5 and 6):		
$1.375 cumulative preferred stock, no par value, 77,205 shares authorized, 41,235 shares issued; callable at $26.50 per share (entitled in involuntary liquidation to $25 per share and dividends in arrears, an aggregate of $1,300,140 at December 31, 1966)	887,488	887,488
5½% voting second preferred stock, $5 par value, 25,000 shares authorized, 24,984 shares issued; callable at par value after cumulative preferred stock	124,920	124,920
Common stock, no par value, stated value of $1, 10,000,000 shares authorized, 4,062,691 shares issued (3,962,691 in 1965)	4,062,691	3,962,691
Additional amounts paid-in on capital stock	10,174,946	9,783,006
Earned surplus (deficit)	(13,770,308)	(13,354,952)
Total stockholders' equity	1,479,737	1,403,153
	$11,078,214	$14,819,225

See accompanying notes.

CONSOLIDATED STATEMENT OF LOSS

YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
Revenues:		
Net sales	$15,015,345	$11,048,608
Rentals and service income	2,340,068	2,587,984
Total revenues	17,355,413	13,636,592
Operating costs and expenses:		
Cost of sales and services	12,042,794	9,031,652
Selling	2,571,374	2,665,291
General and administrative	1,673,437	1,701,544
Research and development (Note 2)	700,363	603,873
	16,987,968	14,002,360
Operating income (loss)	367,445	(365,768)
Interest expense—net	(573,127)	(498,542)
Non-recurring income—net	36,280	173,948
Other income—net	8,614	150,976
Provision for foreign income taxes	(253,400)	(178,646)
Minority interests	(1,168)	(34,437)
Net loss	$ (415,356)	$ (752,469)

Depreciation and amortization deducted in the above statement: 1966—$1,050,926; 1965—$1,061,080.

See accompanying notes.

CONSOLIDATED STATEMENT OF EARNED SURPLUS (DEFICIT)

YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
Deficit at beginning of year	$(13,354,952)	$(12,602,483)
Net loss	(415,356)	(752,469)
Deficit at end of year (Notes 3 and 4)	$(13,770,308)	$(13,354,952)

CONSOLIDATED STATEMENT OF ADDITIONAL AMOUNTS PAID-IN ON CAPITAL STOCK

YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
Balance at beginning of year	$ 9,783,006	$ 8,981,050
Excess over stated value of proceeds received on issuance of 100,000 shares of common stock in 1966 and 200,400 shares in 1965 (Notes 3 and 5)	390,263	800,850
Other	1,677	1,106
Balance at end of year	$10,174,946	$ 9,783,006

See accompanying notes.

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Stockholders
Farrington Manufacturing Company

We have examined the accompanying consolidated balance sheet of Farrington Manufacturing Company and consolidated subsidiary companies at December 31, 1966 and the related consolidated statements of loss, earned surplus (deficit) and addjtional amounts paid-in on capital stock for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the recoverability of the deferred research and development expenses as described in Note 2, the statements mentioned above present fairly the consolidated financial position of Farrington Manufacturing Company and consolidated subsidiary companies at December 31, 1966 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

March 17, 1967

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1966

1. Basis of financial statements

The consolidated financial statements include the accounts of all domestic and foreign operating subsidiaries, except for the accounts of one insignificant subsidiary operating in France. The revenues of the foreign subsidiaries constituted 48% of consolidated revenue. The accounts of the Company's foreign subsidiaries have been translated into U.S. dollars at the appropriate rates of exchange.

In September 1966 Farrington Leasing Corporation, a wholly-owned consolidated subsidiary, sold without recourse substantially all of its equipment leased to customers to an unrelated leasing company. As a result, $160,000 of manufacturing profits pertaining to equipment put on lease in 1965 and $138,000 of profits previously deferred on sale of equipment has been included in 1966 operating income. The proceeds of the sale were used to retire the 5¾ per cent Guaranteed Collateral Notes of $3,000,000. Additionally, $1,500,000 of rental proceeds and government securities held by the Trustee were released for corporate use.

The 6½% cumulative preference shares of an English subsidiary, which may be redeemed for £120,000 ($336,000) after January 1, 1969 and must be redeemed prior to December 31, 1973, are not owned by the Company, and 45% of the shares of its subsidiary operating in India are owned by minority interests.

2. Deferred research and development

As of December 31, 1966 the Company has deferred a net amount of $1,466,541 of which $953,629 represents the cost of uncompleted projects, $450,428 of which were completed in early 1967. The recoverability of these deferred costs is dependent upon successful completion of these projects and future profitable sales of the equipment being developed. In the opinion of management, these costs are fully recoverable. The Company has adopted the policy of amortizing these costs by charges to earnings over the first three years in which they produce income or writing them off entirely at the time the projects are determined to be valueless.

3. Long-term and other debt

During 1966 the Company retired $490,263 principal amount of its notes payable due one year and one day after demand (some of which class of notes were payable to stockholder-directors), in exchange for the issuance of 100,000 shares of its common stock. At December 31, 1966 the interest rate on these notes varied from 6½% to 7½%.

In January 1967 the Company's domestic subsidiaries entered into a revolving credit loan with a commercial lending institution. This loan is secured by the pledge of substantially all accounts receivable and inventories of the subsidiaries and the guarantee of the Parent Company.

The subordinated convertible debentures are subordinated to all indebtedness to banks or other lending institutions now or hereafter owing or guaranteed by the Company. The debentures are convertible into common stock of the Company at any time before April 1, 1970 at a conversion price of $57 per share. Under the Trust Indenture relating to the debentures, the Company may not pay cash dividends on its common stock nor purchase, redeem, or retire any of its preferred or common stocks except from consolidated retained earnings, as defined.

At December 31, 1966, the Company had guaranteed $567,650 of notes payable to banks by its consolidated subsidiary, Adrema Limited. These notes are secured by a first charge on the assets of the Company's principal United Kingdom subsidiaries. In addition, $275,016 of notes payable by a consolidated subsidiary operating in India are secured by the pledge of that Company's tangible moveable assets.

4. Preferred stocks

Provisions relating to the $1.375 cumulative preferred stock provide that when four quarterly dividends have been passed the cumulative preferred stockholders, voting separately as a class, may elect two directors in addition to those elected by the common and second preferred stockholders. No dividends have been paid since 1962 and at December 31, 1966 unpaid accumulated dividends in arrears amounted to $6.53 per share, a total of $269,265.

Provisions relating to the cumulative preferred stock limit required sinking fund payments to amounts generated by consolidated net earnings, as defined, in excess of certain minimums.

5. Common stock reserved, stock warrants and stock options

At December 31, 1966, 220,279 shares of the unissued common stock of the Company were reserved for the following purposes:

	Shares reserved
Stock purchase warrants which were issued to the holders of the 5¾% Guaranteed Collateral Notes of Farrington Leasing Corporation (retired in 1966) and are currently exercisable at a price of $7.00 per share prior to October 1, 1969 and at $7.70 per share thereafter until their expiration on October 1, 1974	100,000
Subscription warrants expiring December 31, 1969 which are currently exercisable at prices progressing from $3.43 to $3.68 per share	2,488
Conversion of the subordinated debentures as stated in Note 3	66,141
Shares which may be issued as additional consideration for certain assets acquired in 1961	1,650
Stock options granted to officers and employees, at prices ranging from $3.50 to $4.00 per share, of which 37,000 were exercisable at December 31, 1966	45,800
Stock options which may be granted to officers and employees in the future	4,200
	220,279

During 1966 options as to 3,800 shares were granted at $3.50 per share and options as to 6,300 shares expired by reason of terminations.

6. Contingent liabilities

There is pending in the Supreme Court of the State of New York an action against the Company for breach of contract, non-payment of royalties, loss of profits and conversion. The maximum amount of damage as sought by the plaintiff in said action is $100,000. In the opinion of counsel, the Company has sound defenses and should ultimately prevail, although, in any event the plaintiff would be unable to prove any substantial damages.

Interferences have been declared by the Patent Office between certain patent applications filed with the Patent Office and one of the patents issued to the Company on a major product. Testimony has not yet been taken in regard to priority of invention. In the opinion of counsel, the Company has a valid defense against the asserted priority of inventorship.

Rental payments under long-term leases expiring at various dates to 1986 approximate $349,059 for 1967, $374,889 in 1968 and will decline thereafter.

FARRINGTON MANUFACTURING COMPANY

EXECUTIVE OFFICES: 850 Third Avenue, New York, New York 10022

SUBSIDIARIES

FARRINGTON ELECTRONICS INC.
Shirley Industrial Area
Springfield, Virginia 22150

F.S.C. CORP.
2201 Pennsylvania Avenue
Philadelphia, Pennsylvania 19130

FARRINGTON BUSINESS MACHINES CORP.
Shirley Industrial Area
Springfield, Virginia 22150

FARRINGTON BUSINESS MACHINES (CANADA) LTD.
1875 Leslie Street
Don Mills, Ontario, Canada

ADREMA (HOLDINGS) LTD.
2-10 Telford Way
London, England

BRADMA OF INDIA, LTD.
Lakshmi Building
Sir Phirozeshah Mehta Road, Bombay, India

FARRINGTON LEASING CORPORATION
850 Third Avenue
New York, New York 10022

DIRECTORS

NORVILLE E. WHITE	Chairman of the Board and President
O. C. BOXALL	President, Farrington Electronics Inc. and Farrington Business Machines Corp.
C. GRANDISON HOYT	Chairman, Executive Committee
TERENCE M. LANE	Partner, Baker, McKenzie, and Hightower (London)
PETER F. MCCLOSKEY	Vice President, Administration
JOHN BRABANT RIDLEY	Investment Banker (Retired)
EDWARD A. SILLIERE	General Counsel
HAROLD C. UREY	Professor Chemistry-at-large, University of California

OFFICERS

NORVILLE E. WHITE	Chairman of the Board and President
O. C. BOXALL	Vice President, Marketing
PETER F. MCCLOSKEY	Vice President, Administration
GEORGE T. O'DEA	Treasurer
ROBERT G. EASTON	Secretary

TRANSFER AGENT

STATE STREET BANK AND TRUST COMPANY, Boston, Massachusetts 02101

FARRINGTON

FARRINGTON MANUFACTURING COMPANY 1966 ANNUAL REPORT

G/D—PRINTED IN U.S.A.

AR44

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
"IN LIEU OF ANNUAL MEETING" TO BE HELD
MAY 11, 1967

To the Shareholders of
FARRINGTON MANUFACTURING COMPANY:

A special meeting of the shareholders of Farrington Manufacturing Company "in lieu of the annual meeting" will be held at the Marriott Twin Bridges Motor Hotel, 333 Jefferson Davis Highway, Arlington, Virginia, on Thursday, May 11, 1967, at ten o'clock in the forenoon E.D.S.T. for the following purposes:

1. To fix the number of Directors for the ensuing year at not less than five (5) nor more than fifteen (15) in accordance with the by-laws.
2. To elect such number of Directors as may be fixed at the meeting and until their successors are elected and qualify. *Holders of Cumulative Preferred Stock voting as a class, will have the right at this meeting to elect two (2) Directors, and the holders of the Second Preferred Stock and the Common Stock, voting together, will have the right to elect all other Directors.*
3. To consider and vote upon a proposal to approve the Company's 1967 qualified stock option plan for key employees (described in the proxy statement).
4. To elect auditors to examine the Company's accounts for the year 1967.
5. To transact such other business as may properly come before the meeting.

The stock transfer books of the Company will not be closed, but the close of business, April 5, 1967, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting and at any adjournment or adjournments thereof.

IF YOU DO NOT EXPECT TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND DATE THE ACCOMPANYING PROXY CARD AND MAIL IT PROMPTLY IN THE ENCLOSED SELF-ADDRESSED, POSTAGE PREPAID ENVELOPE.

By Order of the Board of Directors,

WILLIAM C. SAWYER, *Clerk*

April 17, 1967

FARRINGTON MANUFACTURING COMPANY

PROXY STATEMENT

This Proxy Statement is furnished in connection with management's solicitation of Proxies to be used at the Special Meeting "in lieu of the Annual meeting" of Shareholders of Farrington Manufacturing Company (hereinafter called "Company") to be held on May 11, 1967, and any adjournments thereof. The matters to be considered at the meeting are set forth in the attached Notice of Special Meeting.

Any person giving a proxy has the power to revoke it at any time before its exercise. The proxy will be voted in accordance with any specifications made.

The record date for the determination of shareholders entitled to notice of and to vote at the meeting is April 5, 1967. Holders of the Cumulative Preferred Stock of the Company voting as a class will have the right to elect two directors, each share being entitled to one vote. On April 5, 1967, 41,235 shares of the Cumulative Preferred Stock were outstanding. The holders of the Second Preferred Stock and the Common Stock of the Company, voting together, have the right to elect all other directors, each share of each class being entitled to one vote. On April 5, 1967, there were 24,984 shares of the Second Preferred Stock and 4,063,091 shares of the Common Stock of the Company outstanding. Only the holders of Second Preferred Stock and Common Stock are entitled to vote on other matters coming before the meeting.

ELECTION OF DIRECTORS

The By-Laws of the Company provide that the Board of Directors shall be not less than 5 nor more than 15, to be determined from time to time by the stockholders. Management proposes that the number of directors to be elected by the holders of the Second Preferred and the Common Stock, voting together, shall be fixed at 6, and the Proxies solicited by management will be voted to fix the number of directors for the ensuing year at said number. In addition, the holders of the Cumulative Preferred Stock, voting as a class, are entitled to elect two additional directors.

All of the present members of the Board of Directors listed below have been designated by the Board as candidates for reelection as directors to serve for the ensuing year and until their respective successors shall have been elected and qualified. C. Grandison Hoyt and Edward A. Silliere have been designated for reelection by the holders of the Cumulative Preferred Stock. Unless otherwise specified in the form of proxy, the Proxies solicited by the management will be voted for the election of these candidates in the absence of a vacancy in the proposed slate. The management does not contemplate that any of the candidates will be unavailable for election, but in the event of a vacancy in the proposed slate occasioned by death or other unexpected occurrence, the Proxies will be voted according to the best judgment of the proxy holders.

The following information is furnished with respect to the nominees of the Board of Directors:

Name	Position with Company and Principal Occupation	Has Been Director Since	Shares of Each Class of Stock Beneficially Owned as of March 15, 1967	
O. C. Boxall	Vice President and Director of the Company	1965	Common	200
C. Grandison Hoyt	Director and Chairman of the Executive Committee; Investor	1959	Common	1,283,996(1)
			Second Preferred	19,873(1)
Terence M. Lane	Director; Partner in Baker, McKenzie & Hightower, Attorneys, London, England	1963	None	
Peter F. McCloskey	Vice President and Director of the Company	1966	Common	200
John B. Ridley	Director; Investor	1965	Common	5,000
E. A. Silliere(2)	Director; Partner, Sullivan, Donovan, Hanrahan, McGovern and Lane, Attorneys, New York, New York	1963	Common	200
Harold C. Urey	Director; Professor Chemistry-at-Large, University of California	1963	Common	925
Norville E. White	Chairman of the Board and President of the Company	1961	Common	73,000
			Second Preferred	70(3)
			Cumulative Preferred	885(3)

(1) 31.6% of the outstanding Common Stock and 79.5% of the outstanding Second Preferred Stock respectively. Except for 4,000 shares registered in his own name the balance of the shares are registered in the names of Gee & Co. or Dow & Co., nominees of the Canadian Imperial Bank of Commerce. The shares registered in the names of said nominees, together with other assets of Mr. Hoyt, are pledged to secure a demand loan with said bank in the principal amount of $1,255,000 with interest at 6½% per annum. Non-payment of interest would constitute a default. The loan is not in default.

(2) General Counsel to the Company.

(3) Mr. White also owns of record, but not beneficially 314 shares of the Second Preferred Stock and 300 shares of the Cumulative Preferred Stock.

Heil & Company own of record 13,800 shares of the Cumulative Preferred Stock representing 33.5% of the outstanding Cumulative Preferred Stock of the Company. The beneficial owner is Princeton University.

REMUNERATION OF OFFICERS AND DIRECTORS

In the following table there is shown the remuneration paid and accrued in the fiscal year ending December 31, 1966, to each director whose aggregate remuneration exceeded $30,000 and each of the three highest paid officers whose aggregate remuneration exceeded that amount and all directors and officers as a group:

A. Name of individual or Number of Persons in Group	B. Capacity in Which Remuneration was Received	C. Aggregate Remuneration
Norville E. White	Chairman of the of the Board, President and Director	$ 50,000
O. C. Boxall	Vice President and Director	46,474
P. F. McCloskey	Vice President and Director	45,000
Directors and officers as a group, including those names above (10 persons)		192,799

During the period January 1, 1966 to date, the Company incurred legal fees totalling $41,246.66 to Sullivan, Donovan, Hanrahan, McGovern & Lane, in which firm Mr. E. A. Silliere is a partner.

On July 14, 1966 the Company entered into an agreement with Mr. O. C. Boxall by the terms of which his employment as an officer was continued for a period of two years from June 1, 1966. The agreement fixed his salary at $25,000 per year plus a commission equal to ⅛ of 1% of the net sales of Adrema (Holdings) Limited, Farrington Business Machines Corporation, Farrington Business Machines (Canada) Limited, Farrington Electronics Inc. and F. S. C. Corp. On November 8, 1966, Mr. Boxall's agreement was modified as of August 1, 1966 to provide a fixed annual compensation of $45,000 per year without any commissions.

On December 1, 1965, the Company entered into an agreement with Mr. Peter F. McCloskey employing him as an officer for a period of two years at a salary of $45,000 per year.

MATERIAL TRANSACTIONS OF OFFICERS AND DIRECTORS

During the year through March 30, 1966, Mr. C. Grandison Hoyt made loans to the Company of $231,202.38 by way of notes payable one year and one day after demand bearing an interest rate of 6% per annum. On March 30, 1966, 39,000 shares of Common Stock were exchanged for $191,202.38 of said notes. The market value of Common Stock on March 30, 1966, was 5⅛ as determined by the retail price supplied by Henry J. Richter & Co., stockbrokers, St. Louis, Missouri. On April 28, 1966, the interest rate on the remaining amount, to wit $40,000, and on loans made prior to 1966 was increased to 7½% per annum in consideration of Mr. Hoyt refraining from demanding payment on his loans and to reflect the increased cost of borrowing money. Subsequent to March 30, 1966, Mr. Hoyt made loans to the Company of $281,000 by way of notes payable on demand which also bear an interest rate of 7½% per annum and which were secured by a pledge of notes payable to the Company of Adrema Limited, a wholly owned subsidiary of the Company. The above secured notes of $281,000 were paid by the Company during 1966 and the pledged notes of Adrema Limited returned to the Company. Interest in the amount of $58,951.19 was paid Mr. Hoyt in 1966 on notes issued in 1965 and prior thereto. In 1967 interest in the amount of $57,898.11 was paid Mr. Hoyt on notes issued in 1966 and prior thereto for the period through December 31, 1966. On December 31, 1966, the Company owed Mr. Hoyt $822,898.11.

During the year 1966 Mr. N. E. White made loans totalling $176,494.50 to the Company by way of notes payable one year and one day after demand bearing an interest rate of 6% per annum. On March 30, 1966, by agreement with the Company, 36,000 shares of Common Stock were exchanged for said notes. The market value of Common Stock on March 30, 1966, was 5⅛ as determined by the retail price supplied by Henry J. Richter & Co. Interest on the above loans was waived by Mr. White.

SELECTION OF AUDITORS

Management proposes that Arthur Young & Company be elected auditors to examine the Company's accounts for the year ending December 31, 1967. Said firm has audited the accounts of the Company since 1963 and has no direct or other material indirect financial interest in the Company or any of its subsidiaries or any connection during the past three years with the Company or any of its subsidiaries in any capacity except as independent auditors.

STOCK OPTION PLAN

On January 28, 1965, the Board of Directors adopted a qualified stock option plan for key employees. This plan was approved by the shareholders on August 12, 1965. The number of shares of Common Stock reserved for options was 30,000 of which amount 4,200 shares are presently available for option.

The following information is furnished with respect to options granted to or exercised by officers, directors or key employees since the adoption of said plan:

Name of Group	Shares Optioned	Option Price	Shares Purchased by Exercise of Options	Market Price Per Share When Purchased
O. C. Boxall	3,000	$4.00	200	$7.12
Peter F. McCloskey	1,500	4.00	200	7.38
	500	3.50		
Officers and directors as a group (including the above)	6,800	4.00	400	7.12 to 7.38
	500	3.50		
Key employees	14,700	4.00	None	
	3,400	3.50		
	400	4.50		

Since the plan was adopted no sales of Common Stock of the Company have been made by any persons who acquired shares of Common Stock through the exercise of options.

On July 30, 1963, Mr. Norville E. White was granted a restricted stock option to purchase 20,000 shares of the Common Stock at $4.00 per share. The mean of the bid and asked prices of the Common Stock on July 30, 1963 was $4.18¾ as reported by Henderson, Harrison & Co., New York, N. Y. The option became exercisable to the extent of 5,000 shares a year beginning in 1964. Mr. White has not exercised any of his options. At the same time a former officer and director had a similar option for 10,000 shares of Common Stock at the same price. This option was never exercised and is now terminated. No other options have been granted during the last five fiscal years. Mr. White cannot participate in the 1965 qualified stock option plan mentioned above or in the 1967 qualified stock option plan described below. During the past five years Mr. White sold 10,000 shares of the Common Stock of the Company and the Officers and directors as a group sold 151,000 shares.

The Board of Directors on March 9, 1966 adopted the 1967 qualified stock option plan for key employees making available for options an additional 100,000 shares of Common Stock subject to the approval of the shareholders.

The Board of Directors believes that stock options are a material factor in attracting outstanding individuals and in inducing them to remain in the service of the Company.

The 1967 Plan is identical in terms with the one adopted on January 28, 1965 and provides that options may be granted to key employees, including officers, of the Company and its subsidiaries, but options may not be granted to Directors, as such. The option price is 100% of the fair market value of the Company's Common Stock when the option is granted. It is not possible to determine at this time the names or numbers of persons who may become eligible for options or be granted options but it is expected that from time to time, options will be granted to some 50 key employees, plus approximately 10 officers, of the Company and its subsidiaries, some of whom may already have received options.

Each option granted pursuant to the 1967 Plan will be evidenced by a Stock Option Agreement. Such Stock Option Agreement provides among other things (1) that in order for the optionee to exercise an option, he must be in the employ of the Company or one of its subsidiaries for one year after the date of the option, (2) that the option may be exercised to the extent of 25% of the shares optioned after the expiration of one year from the date of the option and 25% additional each year thereafter, (3) that installments may be accumulated and be exercised, in whole or in part, not later than the expiration of the fourth year after the date of the option, (4) that if the employment of the optionee is terminated after one year from the date of the option, the optionee shall have the right to exercise the amount of the option which has accrued within 90 days, (5) that no option is exercisable if the optionee has a prior option to purchase shares at a higher price, (6) that the option is not transferable except by will or the laws of descent and distribution and, in the event of optionee's death, the transferee must exercise the option within 180 days thereafter, and (7) that the optionee may be required to certify his intention of holding stock issued pursuant to the option for investment.

The Board may amend the 1967 Plan at any time except that without stockholders' approval, it may not change the maximum number of shares allocated to this plan, increase the maximum number of shares which may be optioned to one person, reduce the option price below fair market value or change the class of eligible employees.

Under both the 1965 Plan and the 1967 Plan shares subject to terminated or expired options may again be optioned pursuant to said plans.

It is intended that options granted under the 1967 Plan will be qualified stock options within the meaning of Section 422 of the Internal Revenue Code. Under the Code, if an optionee does not dispose of stock acquired pursuant to such option until after 3 years have elapsed after such stock has been acquired, no taxable income will result to him at the time of the granting of the option or at the time of its exercise and any gain realized from the sale of such stock after such three-year period, will be treated as long-term capital gain. The Company is not allowed any tax deduction at any time by reason of the granting of the option or the issuance of stock pursuant thereto. The 1967 Plan is fully set forth in Exhibit A attached hereto.

The bid and asked quotations of the Company's common stock on April 12, 1967 as reported by the National Association of Securities Dealers, Inc. in The Wall Street Journal was 10¼ bid and 10½ asked; the quotations are inter-dealer prices and do not include retail markup, markdown or commissions.

THE BOARD OF DIRECTORS RECOMMENDS THE APPROVAL OF THE 1967 STOCK OPTION PLAN. SUCH APPROVAL WILL REQUIRE THE MAJORITY VOTE OF THE HOLDERS OF THE COMMON STOCK AND THE SECOND PREFERRED STOCK, VOTING TOGETHER.

NOTICE OF BY-LAW AMENDMENTS

Pursuant to the provision of Section 17 of Chapter 156 B of the General Laws of the Commonwealth of Massachusetts, notice is hereby given that at a meeting of the Board of Directors held March 9, 1967 by affirmative vote of all the Directors of the Company, the By-Laws of the Company were amended as follows:

1. To provide for the election of Treasurer, Clerk, and Assistant Clerk of the Company annually by the Board of Directors.

2. To provide that the Board of Directors may, from time to time between meetings of stockholders, at a regular or special meeting called for that purpose, increase the number of Directors from the number previously fixed at the last stockholders meeting and to elect a Director or Directors to fill the vacancy or vacancies created by such increase.

The Board of Directors has no present intention of increasing the number of its members after the stockholders' meeting.

OTHER MATTERS COMING BEFORE THE MEETING

As of the date of this Proxy Statement the management does not know of any other matters to be presented at the meeting. If, however, other matters properly come before the meeting, it is intended that the holders of the Proxies will vote thereon in accordance with their best judgement.

EXPENSES OF SOLICITATION

The solicitation of Proxies in the enclosed form is made on behalf of the Company and the cost of this solicitation is being paid by the Company. In addition to the use of the mails, Proxies may be solicited personally or by telephone or telegraph by a few regular employees of the Company. Requests may also be made of brokerage houses and other custodians, nominees and fiduciaries to forward the solicitation material, at the expense of the Company, to the beneficial owners of stock held of record by such persons.

By Order of the Board of Directors.

NORVILLE E. WHITE,
Chairman of the Board

EXHIBIT A

FARRINGTON MANUFACTURING COMPANY
1967 STOCK OPTION PLAN

SECTION 1. PURPOSE:

Farrington Manufacturing Company (hereinafter referred to as the "Company") by action of its Board of Directors has established this 1967 Stock Option Plan (hereinafter referred to as the "Plan") for the purpose of providing an additional incentive to, and thus attract and hold in its service, employees who are or may become its officers or who hold other key positions. For the purposes of the Plan, an employee of any subsidiary (as defined in Section 425(f) of the Internal Revenue Code) of the Company shall be deemed to be an employee of the Company.

SECTION 2. WHEN EFFECTIVE:

(a) The Plan shall be effective upon its approval by a majority of the voting stock of the Company at its next Meeting of Stockholders. Unless so approved, the Plan shall not be effective.

(b) Subject to the limitation in Section 4(b) hereof respecting the granting of options, the Plan shall remain in effect indefinitely until terminated by the Board of Directors of the Company (hereinafter referred to as the "Board"). Upon any such termination, any stock options theretofore granted shall not be affected but any stock theretofore reserved for stock options not yet granted shall be released from such reservations.

SECTION 3. ADMINISTRATION:

The Plan shall be administered and interpreted by the Committee (hereinafter referred to as the "Committee") as appointed from time to time by the Board. The members of the Committee shall be members of the Board. No member of the Committee shall be eligible to receive any benefits under the Plan. The Committee shall have power to prescribe, and from time to time change, its own rules of procedure for administering the Plan; provided, that not less than a majority of the members of the Committee may bind the Committee to any action or determination.

SECTION 4. GRANTING OF OPTIONS:

(a) 100,000 shares of the common stock, no par value, of the Company shall be allocated and reserved for stock options to be granted in accordance with the Plan. Such reserved shares may be authorized but unissued shares or any issued shares which have been acquired by the Company and are held in its treasury, as the Board from time to time may determine. To the extent permissible under the provisions of the Internal Revenue Code applicable to qualified stock options, the number of reserved shares, the number of shares optioned, and the option price of shares optioned shall be adjusted proportionately to any change in the number of issued and outstanding shares of the Company through declaration of stock dividends, recapitalization resulting in stock split-up, change in par value, combination or exchange of shares of the Company, or the like, occurring or effective while such shares are being held in such reserve or are subject to granted but unexercised options.

(b) At any time and from time to time the Committee may, pursuant and subject to the provisions of the Plan, grant to any eligible persons, including persons to whom one or more options already may

have been granted, options to purchase any or all of such reserved shares until all such reserved shares shall be exhausted or the Plan shall be sooner terminated; provided, that all options granted shall be granted before March 9, 1977. All options so authorized shall be written, in form approved by the Committee.

(c) Promptly upon its grant by the Committee, each such option, duly signed on behalf of the Company by the Chairman of the Board or by the President of the Company, and dated the day of such grant, shall be tendered to the grantee named therein for acceptance within a specified reasonable time. Unless the grantee, within the specified time, signs an unqualified acceptance thereof, in such form as the Committee prescribes, the option at the end of such specified time shall terminate and have no further effect.

(d) No options may be granted before the stockholders approve the Plan.

(e) Should any option expire or be terminated or cancelled without being fully exercised, the shares as to which such option has not been exercised shall thereupon revert to the status of reserved shares and may again be optioned pursuant to the provisions of the Plan.

(f) No eligible person under the Plan may receive an option or options to purchase more than twenty-five percent (25%) of the total number of shares allocated to the Plan as specified in sub-paragraph (a) of this Section 4.

(g) The Committee shall impose such conditions and require such covenants from the grantee as shall assure the Company's receiving adequate services or other considerations for the granting of the options. The Company's right to terminate the employment of any grantee or to adjust his compensation at any time shall not be affected by the granting of any such stock option.

Section 5. Eligibility:

(a) Only salaried employees who are officers or key employees of the Company shall be eligible to receive grants of stock options under the Plan.

(b) No person shall be eligible to receive any stock option if he then owns stock having more than five percent (5%) of the total combined voting power or value of all classes of stock of the Company or of its subsidiaries as set forth and defined in Sections 422(b)(7) and 425 of the Internal Revenue Code.

Section 6. Option Price:

The option price of the shares under each option granted shall be specified in the option and shall be the fair market value of the stock on the date on which the option is granted. Such fair market value shall be the mean between the bid and asked price of the stock in the over-the-counter market on the day of granting the option or next preceding day on which the bid and asked prices are so quoted.

Section 7. Term and Exercise of Options:

(a) Each option shall be granted for, and by its terms shall not be exercisable after the expiration of, a term or period of four (4) years from the date the option is granted; provided, however, that:

(i) All rights to exercise such option shall terminate three months after the date that the grantee ceases to be an employee of the Company for any reason other than death;

(ii) All rights to exercise such option shall terminate 180 days after the date of the death of the grantee; and

(iii) Every option granted hereunder by its terms shall not be exercisable while there is outstanding (within the meaning of Section 422(c)(2) of the Internal Revenue Code) any option which was granted, either under this Plan or any other plan, to such individual before the granting of such new option to purchase stock in the Company at a price (determined as of the date of the grant of the new option) higher than the option price of the new option.

(b) If the Committee in its discretion so decides, no exercise of any such option may be permitted until the grantee shall have been an employee of the Company for such continuous period of time after the date of the granting of the option as may be determined by the Committee and specified in the option.

(c) Each option shall be exercisable for not more than 25% of optioned shares on the first anniversary of the date of the granting of the option, and for not more than an additional 25% of the number of optioned shares on each such anniversary date thereafter. Shares which may be but are not purchased within any part of the option period may be purchased in any subsequent part of the option period.

(d) Each option by its terms shall not be transferable by the grantee otherwise than by will or the laws of descent and distribution, and during his lifetime shall be exercisable only by him. In the event of his death, any portion of his option then exercisable may be exercised within the time limits of subparagraph (a) above by any person entitled to do so.

(e) Each exercise of an option in whole or in part shall be effected by a notice in writing to the Company accompanied by payment in cash of the full option price of the shares purchased.

(f) No optioned shares shall be issued or transferred to an option holder until purchased as provided in subparagraph (e) above, and a grantee of an option shall have none of the rights of a stockholder with respect to the optioned shares until the shares are issued or transferred to him.

(g) As promptly as possible after any exercise of an option, the Company shall issue and deliver certificates representing the appropriate number of shares. Any exercise of an option and the issuance and delivery of any such shares or certificates shall be subject to all applicable laws and governmental rules and regulations.

Section 8. Amendments or Termination:

The Board may at any time amend, suspend, or terminate the Plan; provided, however, that the Board may not, without approval of the stockholders, amend the Plan so as to (a) change the maximum number of shares allocated and subject thereto as specified in Section 4(a) hereof, or (b) increase the maximum number of shares which may be optioned to any one person as specified in Section 4(f) hereof, or (c) reduce the option price below fair market value as specified in Section 6 hereof, or (d) change the class of employees eligible to receive options.

No option which has been granted may be modified, impaired, or cancelled without the consent and agreement of the holder thereof.